

**SEATTLE PUBLIC UTILITIES BILLING & ACCOUNTS
RECEIVABLE – DRAINAGE FEES
Internal Controls Review**

February 8, 2007

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Susan Cohen, City Auditor

February 8, 2007

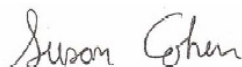
The Honorable Greg Nickels
Seattle City Councilmembers
City of Seattle
Seattle, Washington 98104

Dear Mayor Nickels and City Councilmembers:

Attached is our report on *Seattle Public Utilities Billing & Accounts Receivable – Drainage Fees*. The primary objectives of the review were to determine whether internal controls surrounding the billing and collection of monies due for Drainage utility services were adequate. This audit is part of a larger audit of billing and accounts receivable for all of the Seattle Public Utilities' (SPU) primary utility services - Drainage, Solid Waste, Water, and Wastewater. Reports will be issued later for the remaining modules of this audit project as the work is completed. We selected SPU's billing and accounts receivable functions for audits due to the size of the revenue stream associated with SPU's utility services, which is over \$400 million annually.

We appreciate the excellent cooperation of SPU management and staff during the review process, and that of King County, which performs certain Drainage administration functions for SPU. SPU management's overall response to our review is contained in Appendix 3, while SPU's detailed responses to each audit issue and recommendation are included in the 'SPU Response - Actions Planned' sections found throughout the report.

Sincerely,



Susan Cohen
City Auditor

SC:rh

Attachment

CONTENTS

| | |
|---|----|
| CHAPTER 1: INTRODUCTION AND BACKGROUND | 3 |
| Results in Brief | 3 |
| Background | 5 |
| Scope and Methodology | 6 |
| CHAPTER 2: SEATTLE PUBLIC UTILITIES BILLING & ACCOUNTS RECEIVABLE – DRAINAGE FEES - INTERNAL CONTROLS REVIEW | 7 |
| Conclusions | |
| <u>I. Billing</u> | 7 |
| 1. Variance reporting on property characteristics is not adequate to ensure data is accurately updated for all parcels. <i>High risk</i> | 8 |
| 2. Drainage fee updates/adjustments occur only once a year at the customer account-level, even though the property characteristics of a parcel can change throughout the year. <i>Medium risk</i> | 9 |
| 3. King County property tax statements “returned to sender” are not researched and resolved. <i>Medium risk</i> | 10 |
| <u>II. Payment Processing & Remittance of Payments</u> <i>No issues noted</i> | 11 |
| <u>III. Accounts Receivable & Delinquent Account Management</u> | 11 |
| 4. Delinquent drainage fee accounts are not tracked, researched, or pursued until accounts are three years past due. <i>High risk</i> | 12 |
| 5. King County estimates rather than tracks interest paid on delinquent Drainage fees. There appears to be several issues with the interest estimation and remission procedures. <i>High risk</i> | 14 |
| <u>IV. Customer Service, Account Adjustments, & Customer Disputes</u> | 15 |
| 6. Controls are not adequate to prevent or detect potentially fraudulent/unauthorized employee adjustments to Drainage fees or receivables. <i>High risk</i> | 16 |

| | |
|--|----|
| <u>V. Information Technology</u> | 17 |
| 7. Property data in DBS, including ownership information, is not consistently accurate. <i>High risk</i> | 18 |
| 8. No one is monitoring the Drainage Billing System (DBS) system access rights and two users have update access to DBS that should be removed. <i>Medium risk</i> | 18 |
| <u>VI. Fund Accounting - Drainage Revenues & Receivables</u> | 19 |
| 9. Reconciliations of the Drainage Receivable were not done on a timely basis. <i>High risk</i> | 20 |
| 10. Delinquent Drainage fee receivables are not always written off timely. <i>Medium risk</i> | 20 |
| <u>VII. King County Services Performance & Billing for Services</u> | 21 |
| 11. The Memorandum of Agreement (MOA) with King County for Drainage fee billing and collection services has not been updated since 1989 and some terms of the agreement do not match current practices. <i>Medium risk</i> | 21 |
| 12. SPU may wish to re-evaluate whether it is beneficial to continue outsourcing Drainage billing and collection functions or to bring them in-house. <i>High risk</i> | 22 |

APPENDICES

| | | |
|-------------------|--|----|
| Appendix 1 | Data on Drainage Fee Revenues from 1996 to 2005 | 24 |
| Appendix 2 | SPU Billing & Accounts Receivable – Drainage Fees – Risk Matrix | 25 |
| Appendix 3 | SPU Response to Audit Report - Overall Comments and Context for SPU Action Plans – | 26 |

CHAPTER 1: INTRODUCTION AND BACKGROUND

Seattle Public Utilities (SPU) charges a Drainage utility services fee for properties in Seattle to cover the cost of operating and expanding the City's storm water infrastructure. SPU outsources the Drainage fee billing and collection functions to King County, and King County includes the SPU Drainage fees on annual property tax statements. King County processes customer payments and remits the SPU Drainage fees to the City. In 2005, SPU received \$31.6 million in Drainage fee revenues. (See Appendix 1 for data on Drainage fee revenues for the past 10 years.)

Our review focused on evaluating the internal controls governing Drainage fee billing and accounts receivable policies, procedures, and operations. This review is part of a larger audit of billing and accounts receivable for all of SPU's primary utility services - Drainage, Solid Waste, Water, and Wastewater. Reports will be issued later for the remaining modules of this audit project as the work is completed. This area was selected for audits due to the size of the revenue stream associated with SPU's utility services, which is over \$400 million annually.

RESULTS IN BRIEF

Overall, we found internal controls were adequate for the billing and accounts receivable policies, procedures, and operations for SPU's Drainage fees. However, delinquent Drainage accounts are not properly tracked, researched, and pursued. These delinquent accounts currently amount to about \$1.5 million. We also found that interest paid on delinquent Drainage accounts is estimated by King County and remitted to SPU, and that there are some issues with the estimation and remission procedures that could result in the City being underpaid. There are issues with the accuracy of the property characteristics data in SPU's Drainage Billing System (DBS) database. Further, we identified potential improvements in other areas, including accounting for Drainage receivables, controls to help prevent fraudulent adjustments to Drainage fees and receivables, the procedure for handling Drainage bills (i.e., property tax statements) "returned to sender," system access rights, and updating the Memorandum of Agreement (MOA) for Drainage administration services. We also concluded that SPU may want to re-evaluate their current outsourcing arrangement for various Drainage administration functions. See Appendix 2 for a color-coded Risk Level Chart for the major scope areas included in the review and the individual findings within these areas.

We found proper controls are in place and functioning adequately for billing functions. We concluded Drainage rates are accurately loaded into DBS, and Drainage fees are generally billed accurately to properties that should be billed and not to those properties that are exempt from the Drainage fee. However, the variance reporting on property characteristics is not adequate to ensure data is accurately updated for all parcels, and this situation appears to be creating some billing errors and misdirection of bills. In addition, Drainage fee updates/adjustments occur only once a year at the customer account-level, even though the property characteristics of a parcel can change throughout the year. We found that King County Property Tax statements (and

Drainage fee bills) “returned to sender” are not researched and resolved to allow for re-mailing of the bill.

We found proper controls are in place and functioning adequately for payment processing and remittance of payments functions. Our audit work indicates Drainage fee payments are processed and posted accurately, timely, and securely. We found that Drainage payment receipts are accurately and timely remitted from King County to SPU.

We concluded that controls are not adequate for the accounts receivable and delinquent account management functions. Delinquent Drainage fee accounts are not tracked, researched, or pursued until accounts are three years past due, when foreclosure procedures are initiated. Total delinquent accounts currently represent about \$1.5 million. King County does not track actual interest paid by customers on delinquent Drainage fees, but estimates this figure. There appears to be several issues with the interest estimation and remission procedures, which may be resulting in the City being underpaid.

Overall, we found proper controls are in place and functioning adequately for the customer service, account adjustments, and customer dispute functions. There are adequate processes in place to respond to customer billing questions and concerns, and customer issues appear to be addressed in a timely and proper manner. However, controls are not adequate to prevent or detect potentially fraudulent or unauthorized employee adjustments to Drainage fees or receivables.

Overall, we concluded proper controls are in place and functioning adequately for information technology (IT) functions. We found that system access rights for Drainage system functions are generally properly assigned in a secure manner and adhere to the principle of “least privileges¹.” It appears that the systems involved with Drainage fee data and transactions are properly backed up and back-up files are stored securely. However, property characteristics data in DBS, including ownership information, is not consistently accurate. It also appears that no one is monitoring DBS system access rights, and two users should have their DBS update access removed.

We reviewed the Fund Accounting - Drainage Revenues and Receivables functions and found that controls are proper and adequate for accounting for Drainage revenues, but need some improvement for accounting for Drainage receivables. Reconciliations of the Drainage receivables were not done monthly or on a timely basis. Delinquent Drainage fee receivables are not always written off timely.

Overall, we found King County is performing Drainage functions for SPU in accordance with agreed upon terms, and charges for services are accurate and properly reviewed and approved. However, the MOA between the City and King County for Drainage administration services has not been updated since 1989 and some terms of the agreement do not match current practices. In

¹ The information technology control principle of least privilege requires that system access rights be granted at the minimum level for what is required for the job function and to the smallest number of employees as is operationally necessary.

addition, SPU may wish to re-evaluate whether it should continue to outsource drainage billing and collection functions or to bring them in-house.

SPU management provided an overall response to the audit report, which addresses the high-level efforts they are working on in relation to Drainage administration functions. See Appendix 3 for this response. In addition, SPU provided a detailed response (i.e., SPU RESPONSE - ACTIONS PLANNED OR TAKEN) for each audit issue and recommendation that is listed after each audit Conclusion. We are pleased with SPU's responses and commitment to improving the Drainage administration processes.

BACKGROUND

History of the City's Drainage Fee

The City Council adopted the Drainage fee in the late 1980s, after a period of extremely heavy rains resulted in a number of liability claims made against the City for property damage. At the time, the City had an inadequate drainage infrastructure, in terms of the number and size of drains and capacity. The heavy rains resulted in sedimentation build-up, erosion, and basement flooding. In response, the City Council commissioned a Drainage Study that recommended the City take action on three fronts: 1) prevent flooding, 2) maintain and improve the drainage infrastructure, and 3) address water quality issues caused by drainage.

The City Council adopted the Drainage fee to pay for the improvements needed to the City's drainage infrastructure. Since King County was already charging a drainage (i.e. surface water management) fee and had a database system to accomplish this, the City decided to "piggyback" on this system. The City "cloned" the County's Surface Water Management (SWM) database system to create DBS, the Drainage database system used by the City. At the inception of the program, the City had to update all of the information in DBS. The City's Drainage fee was included as a fee on the King County Property Tax statement, as was the case with the County's surface water management fee.

SPU's Current Drainage Fee

SPU charges a Drainage fee for all properties located within the City to cover the costs of handling storm water and surface water run-off, except for those that are exempt from Drainage fees (e.g., streets, houseboats, tidelands, etc.). The Drainage fee is a set rate per parcel for residential properties, and is based on acreage and percent of impervious surface² for commercial properties. In 2005, SPU collected \$31.6 million in revenues from Drainage fees. Drainage fees are billed on the annual King County Property Tax statement, and the customer may pay the total amount due (tax plus other fees) in two equal installments. Section 21.33 of the Seattle Municipal Code governs the City's Drainage fee.

SPU outsources many of the Drainage fee administration functions to King County, including billing, payment processing, collections, and IT support services. SPU pays a fee to King

² Pervious surface area is defined as land that will allow water to permeate or absorb naturally, such as land with dirt, grass, or bark on the top surface. Impervious surface includes asphalt and concrete and other surfaces that do not allow for the natural permeation of water.

County for these services. King County “owns” and maintains the DBS system, but SPU owns and maintains the property data in DBS. There is a Drainage account in DBS for each parcel of land within the City.

SCOPE AND METHODOLOGY

We initiated this review in September 2005 of the internal controls governing billing and accounts receivable functions for SPU’s Drainage fees. This audit is a module of a larger audit project of billing and accounts receivable functions for all of SPU’s primary utility services - Drainage, Solid Waste, Water, and Wastewater. Reports will be issued later for the remaining modules of this audit project as the work is completed. The billing and accounts receivable area was selected for audits due to the size of the revenue stream associated with SPU’s utility services, which is over \$400 million annually.

During this review, we focused on internal controls with an emphasis on those that affect SPU’s and the City’s revenues and expenses. In addition to reviewing control procedures, we tested compliance with procedures whenever possible. Specifically, we reviewed internal controls related to the areas listed below:

- Billing
- Payment processing and remittance of payments
- Accounts receivable management and collections
- Customer service, account adjustments, and customer disputes
- Information technology
- Fund accounting - Drainage revenues and receivables
- King County services performance and billing for services

We based our audit conclusions on interviews with City and King County personnel, testing of data found in reports and computerized systems, and review and analyses of procedures, policies, and available documentation and electronic data. We also observed several Drainage-related functions.

We conducted the preliminary planning phase of this review between September 2005 and May 2006, while simultaneously conducting the planning phase for the Solid Waste, Water, and Wastewater modules. We conducted the audit fieldwork and analysis phase of this review between May 2006 and August 2006. We used sampling techniques based on a risk-based approach, which is a cost-effective way to review significant controls. Our review, therefore, would not necessarily disclose all significant weaknesses and irregularities. In performing audits, our office follows the Government Audit Standards, as prescribed by the Comptroller General of the United States.

CHAPTER 2: SEATTLE PUBLIC UTILITIES BILLING & ACCOUNTS RECEIVABLE – DRAINAGE FEES - INTERNAL CONTROLS REVIEW

The Office of City Auditor conducted this review to assess the condition of internal controls for SPU's Drainage fee billing and accounts receivable policies, procedures, and operations. Overall, we found internal controls were adequate. However, we found that delinquent Drainage accounts are not properly tracked, researched, and pursued. These delinquent accounts currently amount to about \$1.5 million. We also found that interest paid on delinquent Drainage accounts is estimated by King County and remitted to SPU, and there are issues with the estimation and remission procedures that could result in the City being underpaid. There are also some issues with the accuracy of the property characteristics data in the DBS database. Further, we identified potential improvements in other areas, including accounting for Drainage receivables, controls over potentially fraudulent adjustments to Drainage fees and receivables, the procedure for handling Drainage bills (i.e., property tax statements) "returned to sender," system access rights, and updating the MOA for Drainage administration services. We also concluded that SPU may want to re-evaluate their current outsourcing arrangement for various Drainage administration functions.

I. BILLING

New Drainage fee rates are formally adopted by the City Council in the form of an ordinance. Drainage rate studies are generally conducted by SPU about once every two years, and the results of the rate study determine whether rates should be changed.

Drainage fees are billed to people who own properties within the City of Seattle on the annual King County Property Tax statement. The customer may pay the total amount due (tax plus other fees) in two equal installments or they can pay the entire amount for the year. The amount of the Drainage fee bill is determined based on whether the property is residential or commercial, the size/acreage of the parcel, and the percentage of permeable surface area. Residential customers are charged a flat rate, currently \$142 per parcel, regardless of the parcel's size. Commercial properties are assigned to one of five rate classifications based on the percentage of permeable surface area, and the rate for the classification is multiplied by the acreage of the parcel. Some properties are exempt from Drainage fees, including houseboats, streets, submerged properties, and tidelands. Some properties are exempt from property taxes, but subject to Drainage and other fees, such as government-owned properties and cemeteries. These property owners receive a property tax statement with fees, but no taxes on the statement.

SPU outsources the Drainage fee billing function to King County. King County performs this function for other municipalities that bill for drainage or surface water management fees. Other fees, such as the County's Noxious Weeds fee, are also included on the King County property tax statements. Property tax statements are sent out once a year in February, but the customer is allowed to pay half of the total amount due by April 30 and the remaining half by October 31. In 2006, approximately \$37 million was billed for SPU Drainage fees. If customers do not pay on

time, they are charged 8% annually (or .67% per month) on their delinquent Drainage fees, while they are charged 12% annually (or 1% per month) on delinquent property taxes.

Data on property characteristics for parcels within the City is stored in the DBS database, which is supported by King County's IT unit, although the data is "owned" and maintained by SPU. Drainage fees are calculated in DBS, and the King County Property Tax system "reads" DBS once a year to pick up this fee information to include on the tax statements. Drainage fee receivable data and customer payment data is stored in the King County Property Tax system, but is not maintained in DBS.

We reviewed the billing functions to determine whether internal controls are adequate. Specifically, we evaluated whether controls would ensure that Drainage fees are billed accurately with the proper rates. This included performing audit work to verify whether rates were properly updated and loaded into DBS, DBS accounts were properly updated for any changes in property characteristics, Drainage fees were billed and recorded accurately in DBS, and bills were mailed to all customers who should receive them and not to those whose properties were exempt from Drainage fees. We tested samples of individual accounts to verify compliance with control procedures for these functions.

Overall, we found proper controls were in place and functioning adequately, but we noted a few issues. Changes in property characteristics, which affect Drainage fee amounts, are not always updated to DBS due to issues with the current variance reporting. In addition, because DBS is read by the King County Property Tax system only once a year, any property changes that would result in a change to Drainage fees do not affect the Drainage fee bill until the following year. We also found that returned mail was not properly researched and resolved. Details on these issues are discussed below.

Conclusion 1: Variance reporting on property characteristics data is not adequate to ensure this information is accurately updated for all parcels. *High risk*

Background

SPU receives a Property Characteristics Variance report from King County twice a month and uses this report to update information in DBS for various property changes, such as changes in acreage, combining or dividing of parcels, etc. The variance report is produced by running an automatic compare process between the DBS data and the data in the King County Real Property "mainframe" system. It should be noted that King County also maintains property data in the newer Assessor's Property Tax online system and the information in this system is more accurate and complete than the data in the older mainframe system. SPU management indicated there were about 3,800 DBS records that required property characteristics data updates in 2005.

Issue, Impact, and Recommendation

DBS data on property characteristics should be accurate and up-to-date to ensure that Drainage fees are billed accurately. Currently, this is not always the case because the Property Characteristics Variance report compares DBS data against that in the King County Real Property Mainframe system instead of the more accurate data found in the Assessor's Property Tax online system. During our audit test work, we found properties that had been sold to a new owner or experienced other changes that were not properly reflected in DBS. In addition,

changes in “improvement value,” or the value of the buildings/structures on the parcels, were not reflected in the King County mainframe system; this information is important to SPU because such changes could result in increased Drainage fees. If a commercial property is developed and the percentage of permeable surface area is increased, then the Drainage fee rate class of the property could change. The current situation results in inaccurate Drainage billing for some customers and could reduce Drainage fee revenues.

SPU should be provided with more accurate and complete property characteristics variance reporting from King County.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

SPU has initiated a project to develop a database to house customer data with interfaces to systems providing data updates and to examine the feasibility of bringing drainage billing in-house. The data management system includes the database or storage platform, interfaces to/from the database, processing, querying, standard reports, and update/maintenance. The method for maintaining customer data varies by data field. The principal fields to maintain are: 1) parcel data, including account number, zoning (i.e. residential/general service rate class), and area; 2) impervious/pervious surface area and cover type; and 3) any applicable rate incentives. (See additional discussion of this project at Appendix 3.)

One part of the development of the new data management system will be designing standard reports to support maintenance of the data. Potential data sources include the City’s Department of Planning & Development (DPD) Land Use permitting data, the King County Assessor’s online database, and a combination of periodic photo/mapping updates, interim updates from other City sources, potential limited site surveys, and satellite technology.

In the meantime, we are working with King County to generate electronic variance reports on a regular basis comparing DBS with the King County Assessor’s file, an online system which houses more accurate and complete data. The reports would include changes in acreage, changes in improvement value of the property, segregation or merges, tidelands, parcels that are inactivated, and other pertinent information that will be used to update DBS data. These reports will be in addition to the current variance reports which compare DBS with King County’s mainframe.

Conclusion 2: Drainage fee updates/adjustments occur only once a year at the customer account-level, even though the property characteristics of a parcel can change throughout the year. Medium risk

Background

SPU’s Drainage fees are only billed once a year on the King County property tax statement, though the customer may pay them in two installments. DBS is read once a year by the King County Property Tax system, at the beginning of each year before the tax statements are issued, which means that any changes in Drainage fees resulting from property changes (e.g., changes in acreage, changes in permeable surface area, combinations of parcels or parcel divisions) are only captured at that time.

Issue, Impact, and Recommendation

Drainage fee bills should be as accurate as possible and reflect any property changes. Currently, property changes that take place throughout the year are not reflected in Drainage fee billing until the following year. It should be noted that King County updates their Surface Water Management fee, which is the County's equivalent of SPU's Drainage fee, whenever property changes are made and they issue an updated property tax statement to the customer to reflect the changes. SPU may wish to consider the possibilities and the benefits of updating Drainage fees when property changes occur.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

The ability to issue updated billing to customers will be addressed within the data management/billing solution project currently underway. The team developing the data management/billing solution described under Conclusion 1 will develop a recommendation to the executive oversight committee on the frequency of updating Drainage fees when property characteristics change.

Conclusion 3: King County property tax statements “returned to sender” are not researched and resolved. *Medium risk*

Background

Property tax statements are mailed to whoever is on record to pay property tax for the parcel, which could be the property owner, a bank if there is a mortgage on the property, a property manager, etc. If an address is not valid or is undeliverable, the U. S. Postal Service returns the tax statement to the King County Treasury department. King County Treasury receives about 20,000 returned property tax statements annually for properties located throughout the county.

Issue, Impact, and Recommendation

Drainage fee bills (i.e., property tax statements) that are returned due to an invalid/undeliverable address should be researched so it can be determined if the property owner has moved or the property has been sold. Then the bill should be resent to the correct address. Currently, King County does not research returned property tax statements, but instead waits for the property owner to contact them or lets the account go delinquent. (As is discussed in detail at Conclusion 4 on page 12, King County takes no follow-up actions on delinquent property tax accounts until the accounts are three years overdue, at which time foreclosure procedures are initiated.) King County noted they generally do not try to track down the property owner's new address because property is bought and sold and it can become difficult to research, especially for properties that are bought and sold through property managers. While this procedure may be appropriate for property tax bills, it is not ideal for utility service fees and results in delayed payment of SPU Drainage fees, sometimes for up to three years. Currently, SPU has no visibility of these returned Drainage bills (property tax statements).

We recommend this issue be considered by SPU management along with the issue discussed in Conclusion 4 on procedures for handling delinquent Drainage accounts, in order to determine a better way to deal with delinquent Drainage fee accounts.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

This situation will be addressed in conjunction with the data management/billing solution project (see Conclusion 1) and evaluation of in-house billing and collections as outlined in our response to Conclusion 4.

II. PAYMENT PROCESSING & REMITTANCE OF PAYMENTS

Customers pay their Drainage fees as part of their King County property tax payments. Customers generally mail in payments but may also pay in person or through the Internet. If a customer remits a payment that is either five dollars more or less than the amount due for property taxes and fees, the payment is returned along with a letter of explanation. King County Treasury processes customer payments, records the payments and updates the receivable information on the accounts (including fee receivables), and wire transfers the amounts received for SPU Drainage fees to the City within the next one or two days.

We reviewed the payment processing and payment remittance functions to determine whether internal controls were adequate. Specifically, we evaluated whether controls would ensure that customer Drainage payments were processed accurately, timely, and securely. We also examined whether controls would ensure revenues are remitted from King County to SPU accurately and timely. This included verifying whether payments were accurately and timely processed, posted, and wire-transferred from King County to the City, and whether interest payments on delinquent Drainage charges were accurately and timely remitted to the City in accordance with contract terms. Overall, we found that controls over payment processing and payment remittance appeared to be adequate.

III. ACCOUNTS RECEIVABLE AND DELINQUENT ACCOUNT MANAGEMENT

Drainage fee receivables (or Drainage fees due) are recorded in the King County Property Tax system at the parcel number level. Property tax statements are mailed once a year in February and customers are required to pay half of the total amount by April 30 and the remaining half by October 31. If customers do not pay their property taxes (and Drainage fees) on time, they are assessed interest at the rate of 8% annually on delinquent Drainage fees and 12% annually on delinquent property taxes.

SPU outsources the billing and payment processing functions for Drainage fees to King County, but it is somewhat unclear who is supposed to handle accounts receivable and delinquent account management functions. In practice, these functions are not performed. Customers are notified of delinquency only via the subsequent year's property tax statement. When an account has been delinquent for three years, King County will initiate foreclosure procedures. There are many steps in the foreclosure process, that include contacting the property owner (and researching who the owner is in some cases), advertising the list of properties subject to foreclosure in the newspaper, and eventually auctioning off the properties at a public auction. Proceeds from property foreclosure sales are used first to pay property taxes due, and then for any fees due. The one exception to the foreclosure process is that properties owned by government entities may not

be foreclosed, so these Drainage fee accounts currently remain delinquent for an indefinite period.

We reviewed the accounts receivable and delinquent account management functions to determine whether internal controls were adequate. Specifically, we evaluated whether controls ensure Drainage fees due are properly tracked and followed up on to ensure compliance with procedures and maximum recovery of revenues; whether interest is accurately applied to delinquent accounts, collected from customers, and properly remitted to the City; and whether delinquent account procedures and penalties are adequate to encourage timely payment of Drainage fees. This included reviewing tracking procedures for current and delinquent Drainage fee accounts, reviewing policies and procedures for handling delinquent accounts, verifying whether interest was accurately charged, reviewing and verifying procedures for remission of interest to the City, and reviewing policies and procedures for property foreclosures and verifying compliance with these procedures. Overall, we found that controls are not adequate, especially in the areas of delinquent account management. We found that delinquent accounts are not properly tracked and pursued. We concluded there are issues with the calculation and remission of interest on delinquent Drainage fees. Details on these issues are provided below.

Conclusion 4: Delinquent Drainage fee accounts are not tracked, researched, or pursued until accounts are three years past due. High risk

Background

Property tax statements are mailed out once a year in February and show the entire annual amount due for taxes and fees. Half of the total annual amount is due by April 30 and the remaining half by October 31. No notice of account delinquency is sent to the customer until the following year's property tax statement is mailed, though interest is assessed as soon as the account becomes delinquent when a payment deadline is missed. For example, by May 15 an account would be delinquent for the first-half payment and the customer/property owner would owe one month's interest on both the property tax amount and Drainage fee amount. Notice of delinquency is provided in the annual property tax statement, as long as it is applicable. Data on the amount due for Drainage fees, property taxes, and interest is tracked within the King County Property Tax system at the parcel-level. This data is not maintained in DBS.

Issue, Impact, and Recommendation

Delinquent Drainage fee accounts should be tracked, researched, and followed up on to ensure recovery of utility services revenues is maximized. Currently, this does not occur. Specifically:

- **Tracking and Reporting on Delinquent Accounts** King County does not track or report on delinquent property tax accounts. SPU does not receive accounts receivable aging reporting, a standard accounts receivable management tool that shows accounts that are overdue by 30 days, 60 days, 90 days, etc. This situation makes it very difficult for SPU management to determine the nature and size of the delinquent Drainage fee account problem. Information from King County indicates the amount of Drainage fees billed that are still delinquent by the end of the year could be between \$750,000 and \$1 million.
- **Delinquent Account Follow-Up** There is no follow-up performed on delinquent Drainage fee accounts, by either SPU or King County, until accounts have been

delinquent for three years, at which time King County initiates foreclosure procedures. No notice of delinquency is sent to the customer, other than the annual Property Tax statement, and no other form of customer contact is made until accounts have been delinquent for three years.

- Delinquent Government Accounts Because it is not possible to foreclose on properties owned by governments, it is essential to track, research, and follow up on these delinquent accounts. During audit fieldwork, we reviewed delinquent accounts that were recorded in DBS as government-owned. We found a number of apparent discrepancies in the DBS data as to who really owned the parcel, including parcels that appeared to have been sold to a non-governmental entity but still showed as government-owned, and parcels that appeared to be owned by a State or local government entity but were recorded as owned by the federal government, etc. These delinquent accounts should be researched and resolved.

The current procedures for handling delinquent Drainage accounts reduce SPU's recovery of Drainage fee revenues and its cash flow. Under current procedures, SPU continues to provide Drainage services and incur expenses for delinquent accounts but these accounts linger until the customer pays or foreclosure procedures are initiated in three years. Fees due for properties recorded as government-owned can linger indefinitely since foreclosure is not allowed. The total value of delinquent Drainage accounts currently amounts to about \$1.5 million. We recommend useable and meaningful reporting on delinquent accounts be provided by King County to SPU. SPU then should develop and implement a delinquent account follow-up process.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

One aspect of the drainage data management/billing solution project (see Conclusion 1) will be to explore the feasibility of bringing drainage billing in-house and including it on the combined utility bill along with water, wastewater, and solid waste services. This action has a number of advantages, one of which is the ability to proactively manage past due accounts. Standard reports on delinquent customers and timely follow-up and collections efforts could be managed with more ease. The evaluation of in-house billing will include these advantages as well as billing transparency and the potential to update the drainage fee more often than yearly, a limitation of billing through King County.

It should be noted that King County's collections success is extremely good, averaging 99.77% of each year's billings. Delinquent drainage fees from 1989 to the present amount to only \$1.5 million, more than half of which is expected to be collected, with interest, in the first quarter of 2007. The remaining unpaid fees, approximately \$0.6 million, represent less than a ¼% of all drainage fees ever billed by SPU.

Conclusion 5: King County estimates rather than tracks interest paid on delinquent Drainage fees. There appears to be several issues with the interest estimation and remission process. High risk

Background

If customers do not pay their property taxes (and Drainage fees) on time, they are assessed interest at the rate of 8% annually (or .67% monthly) on delinquent Drainage fees and 12% annually (or 1% monthly) on delinquent property taxes. Eight percent is the maximum interest rate State law permits municipalities to charge on delinquent “sewerage” utility fees (includes drainage fees by definition), as noted in RCW 35.67.200. Interest charges are automatically added to the balance due for delinquent accounts. Customers can determine the interest amount they owe using the interest calculation tool on the King County Treasury Operations website, or they can contact King County by phone. Interest paid to King County for delinquent SPU Drainage fees is to be remitted to the City. In 2005, King County remitted about \$41,000 for estimated interest collected on SPU Drainage fees for the year.

Issue, Impact, and Recommendation

Interest collected from SPU customers for delinquent Drainage fees should be accurately and timely remitted to the City. Currently, there are the following issues with the remission of interest collected by King County:

- **Estimation Versus Actual** According to King County Treasury, King County’s property tax system can not track the amount of interest paid on delinquent SPU Drainage fees. This means that King County does not remit actual interest collected, but remits an estimated amount.
- **Calculation of Estimated Interest** King County uses spreadsheet formulas to calculate the estimate of interest collected on delinquent SPU Drainage fees. The calculation hinges on the assumptions of what percent of the property tax payments were delinquent for each month of the year. During audit fieldwork, we reviewed the spreadsheet calculation tool and the assumptions for percent delinquent for each month. The assumptions for percent delinquent did not appear to be realistic for several months. Notably, the assumptions for May, June, July, August, and September (.7%, .6%, .3%, .2%, .2% respectively) appear to be unrealistically low, in light of the fact that first-half taxes and fees are due April 30. It seems reasonable to assume that payments coming in during those months are predominantly delinquent first-half payments, except for those processed during the first half of May, which might relate to a peak period payment processing backlog. For instance, if one assumes higher percentages for delinquent payments for May through September (we used 10%, 75%, 75%, 75%, 50%), then the actual amount of interest collected from SPU Drainage customers may be up to \$18,000 higher per year than the interest figure King County estimates and pays to the City.
- **Timing of Interest Remission** King County currently remits estimated interest to the City once a year. The Memorandum of Agreement between SPU and King County specifies that interest collected should be remitted monthly. The ideal situation would be for King County to track actual interest paid and remit it as it is paid, as is the case with payment of Drainage fees.

- Past Hiatus of Interest Remission From 1999 until 2004, King County stopped remitting estimated interest for delinquent Drainage fees to the City. This occurred without communication or explanation from the County to the City. In 2005, SPU's Drainage and Wastewater Fund accountant noticed this omission and called attention to it. King County paid the City \$257,000 in August 2005, which was their estimation of the interest that was collected for the years 2000 through 2004. This situation raises several concerns: 1) remission of interest payments was stopped without notice, 2) SPU Accounting was not aware of this for five years, and 3) King County estimated the back-interest due to the City using the same spreadsheet calculation model the County uses currently to estimate annual interest collected, and this model appears to include assumptions that would result in a low estimate.

According to King County, its Property Tax system cannot track interest paid on delinquent SPU Drainage fees; however, the current calculation for estimated interest appears to result in lower interest revenues than is realistic. We recommend that SPU review the current procedures for handling interest paid on delinquent Drainage fees, and consider whether they should be revised.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

SPU will continue to rely on King County's interest calculation, although we have questioned the County's assumptions regarding delinquent collections. The assumptions were reportedly created by a previous County employee and have been in use for many years to distribute interest to the other districts for which the County bills surface water management fees. Further research into the assumptions and/or increased reporting would likely require changes to King County's systems and a revision to the MOU with a corresponding increase in fees. Instead, we believe changes to current practices should be postponed until a decision is made about bringing drainage billing in-house.

IV. CUSTOMER SERVICE, ACCOUNT ADJUSTMENTS & CUSTOMER DISPUTES

When SPU Drainage customers have a question or dispute with their Drainage fee bill, it is noted on the back of the property tax statement that they should call the City's Combined Utility Call Center. When the customer calls the Utility Call Center, unless the question is very basic, they will generally be routed to the SPU Drainage Analyst. The most common inquiries and concerns are that the property is exempt from Drainage fees (because it is exempt from property taxes), or that the property is improperly classified in terms of the percent of impervious surface area. With the former, the customer's concern is generally satisfied once they are informed that Drainage fees are charged to properties exempt from property taxes. With the latter, the SPU Drainage Analyst will review the property data in DBS and the King County Property Tax system, and then conduct an on-site visit, if needed, to determine whether the property characteristics for the parcel need to be adjusted in DBS. The procedure for requesting a Drainage billing adjustment is covered in Seattle Municipal Code 21.33.050. SPU documents and files all requests for adjustments. Only a limited number of staff in the SPU Utility Services team and the King County Treasury department can make adjustments to SPU Drainage account data.

We reviewed the customer service, account adjustments, and customer disputes functions to determine whether their internal controls were adequate. Specifically, we evaluated whether these controls ensured Drainage customers were properly served through adequate customer service channels, customer billing disputes were properly handled in a timely manner, and account adjustments were handled properly and securely. This included reviewing policies and procedures for handling customer questions and requests for adjustments, documentation of past customer adjustments, and systems controls and systems access rights for account adjustments through DBS and the King County Property Tax system. Overall, we found controls are adequate for handling customer service functions, but improvement is needed in Drainage account adjustment controls. Details are provided below.

Conclusion 6: Controls are not adequate to prevent or detect potentially fraudulent/unauthorized employee adjustments to Drainage fees or receivables. *High risk*

Background

DBS calculates SPU Drainage fees for commercial properties based on the parcel acreage and the assigned rate classification, which is tied to the percentage of impervious surface area. (Residential Drainage fees are a set amount per parcel – currently \$142.) Drainage fee receivables, or balances due, are tracked in the King County Property Tax system. Both Drainage fees and Drainage fee receivables are tracked at the parcel level.

Issue, Impact, and Recommendation

Controls should be adequate to ensure potentially unauthorized or fraudulent adjustments to Drainage fees and Drainage fee receivables are prevented or detected. Currently, controls are not adequate:

- **Adjustments to Drainage Fees** Drainage fees for commercial parcels can be reduced by changing either the rate classification or the acreage in DBS, or by adjusting the fee directly. Several SPU and King County staff members have system access rights that allow them to make account adjustments. Currently, there is no adjustment exception reporting for DBS; therefore, an employee could make a fraudulent account adjustment in exchange for a “kickback” or something of value, and it is not likely this would be detected. However, it should be noted that DBS records the User ID for all transactions, which means that a transaction could be researched after the fact if there was a suspicion of malfeasance. We recommend that an adjustment exception report be developed and implemented, and reviewed by SPU management or someone who does not have system update access rights.
- **Adjustments to Drainage Receivables** Drainage account receivables can be adjusted within the King County Property Tax system. Currently, only three King County staff members have these systems update access rights: the Treasury Operations Manager, the Treasury Operations System Analyst, and a Manager in the Department of Natural Resources. The King County Property Tax system does not record the User ID for transactions, although it is the County’s policy for staff members to enter their User ID in a comments field when making adjustments. Also, a Change Register report prints out for all adjustments made to a DBS receivable on the Property Tax system and this report is sent to the Treasury Operations Analyst (one of the three individuals who can make

adjustments) and a copy is sent to the King County Treasury Operations Reports Clerk. This procedure provides some compensating control for detection of a potentially fraudulent adjustment to the Drainage receivable, but a better control would be to send a copy of the Change Register report to a staff member who does not have update system access rights and holds a high enough position to feel comfortable in questioning the legitimacy of a Drainage receivable adjustment.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

If the decision is made to move billing in-house, as described under Conclusion 4, adjustments made to accounts will use the same process as that used for adjustments to accounts for other utility services – water, wastewater, and solid waste.

In the meantime, we are putting processes in place to identify all adjustments made to drainage receivables. Adjustments are identified monthly through the receivables reconciliation (see Conclusion 9). To mitigate potential fraud, we will institute a procedure to have the fund accountant notify SPU Key Services DBS staff of all receivables adjustments identified through the reconciliation.

V. INFORMATION TECHNOLOGY (IT)

When the Seattle City Council voted to adopt a Drainage fee in the 1980s, King County was already charging a drainage fee (for surface water management) and had a database system in place. The City decided to “piggyback” on the County’s Surface Water Management (SWM) system. DBS is essentially a “clone” of SWM and includes the same type of property data, including acreage, land use type, parcel size, location, etc.

Drainage fees are calculated in DBS and the King County Property Tax system “reads” DBS once a year to pick up this fee information. Drainage fee receivable data and customer payment data is tracked in the King County Property Tax system, but this information is not updated to DBS. DBS is supported by King County’s information technology (IT) unit, although the data within DBS is “owned” and updated by SPU. SPU has a documented agreement with King County IT Support Services to provide systems support services for DBS. The rate associated with this agreement is updated annually, and it was \$55,400 for 2005.

We reviewed the IT functions related to Drainage fees to determine whether their internal controls were adequate. Specifically, we evaluated whether the controls ensured SPU’s Drainage data was accurate and transactions were processed in a secure, accurate, and effective manner. This included reviewing systems access rights and backup procedures, audit trails, audit logging and network monitoring procedures, and testing data accuracy. Overall, we found controls were adequate for IT functions, but there are issues with the accuracy of DBS data and systems access rights. Details on these issues are discussed below.

Conclusion 7: Property data in DBS, including ownership information, is not consistently accurate. High risk

Background

Property data for SPU Drainage customers is maintained in DBS. The data that originally populated DBS came from the King County Real Property mainframe system and SPU updates DBS for property changes based on variance reports provided by King County. (See a more detailed discussion of variance reports in Conclusion 1.) It should be noted that King County also maintains property data in the property tax online system, which contains more accurate and complete data than that found in the “old” mainframe system.

Issue, Impact, and Recommendation

Data in DBS and the King County Property Tax system should be accurate and up-to-date to ensure Drainage fees are billed accurately and bills (i.e., property tax statements) are sent to the correct party. During audit fieldwork and our sampling of Drainage accounts, we identified several cases of inaccurate commercial property data, and data inconsistencies between DBS, the King County Real Property mainframe system, the online King County Property Tax system, and the information in the City’s ortho-photographic maps (i.e., aerial photos of parcels within the City). The problems we noted involved properties categorized as government-owned and included instances of properties that appeared to have the wrong government entity listed as the owner, properties that appeared to have been sold to a private interest, and properties that were billed for Drainage fees although they looked like tidelands or submerged parcels in the photos, which should be exempt from Drainage fees. It appears as if some Drainage bills are being sent to the wrong owner and then may be ignored or discarded by the receiver. Consequently, the Drainage account data is not corrected. This situation could be reducing Drainage fee revenues. The data in DBS needs to be reviewed and cleaned up, and delinquent commercial accounts need to be researched to ensure that property data is accurate.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

As part of the data management/billing solution project described under Conclusion 1, an analyst is researching parcel data; comparing information from the assessor, the drainage billing system, and ortho-photos; and looking for anomalies such as tidelands included in the parcel area upon which bills are based. This research will result in rules for drawing upon the available data accurately to create a database for customer billing as well as provide guidance for the preferred methods of keeping the data up-to-date. These data will be kept up-to-date using methods described under Conclusion 1.

Conclusion 8: No one is monitoring DBS system access rights and two users have update access to DBS that should be removed. Medium risk

Background

DBS is supported by King County’s IT unit, but its data is “owned” and maintained by SPU. SPU approves the system access rights of DBS users but King County IT establishes the access rights on the system. Drainage fees can be impacted by changing either the rate classification or the acreage, or by adjusting the fee directly in DBS. There are SPU and King County personnel who require update access to DBS to perform their job functions.

Issue, Impact, and Recommendation

DBS systems access rights should be monitored by SPU management and specific user rights should be periodically reviewed to determine if they are still appropriate and in line with job responsibilities. DBS update access rights should be limited to staff who require it to perform their job functions, because this access can affect Drainage fees. Currently, neither SPU nor King County are monitoring DBS system access rights, and there are two users who need to have their update-level access removed: one SPU user whose job function does not require such access, and one SPU User ID that was for temporary help and is no longer needed.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

SPU will work with King County to identify current users with access to the DBS system and will take measures to remove those who no longer need access. We have a formal process in conjunction with SPU IT to grant access rights to the DBS system as with other application rights. A form is required with formal approval by a SPU Manager, most recently, the Key Services Manager.

VI. FUND ACCOUNTING - DRAINAGE REVENUES & RECEIVABLES

The City has three funds for the operations and transactions of SPU's major utility services. The funds are Water, Solid Waste, and Drainage and Wastewater. These funds are enterprise funds³. Each fund has annual published audited financial statements, and there is a fund accountant that has responsibility for each fund's accounting entries. Drainage operations and services are accounted for in the Drainage and Wastewater Fund. When Drainage fees are billed at the beginning of the year, the entire billed amount for the year is booked to deferred drainage revenues. Then, each month, one-twelfth of the billed Drainage fees amount is recognized as revenue. The drainage receivable represents Drainage fees billed but not yet paid.

We reviewed the fund accounting – Drainage revenues and receivables functions to determine whether internal controls were adequate. Specifically, we evaluated whether controls ensured Drainage fee revenues and receivables accounting was accurate and properly reviewed and verified. This included reviewing and verifying Drainage receivable reconciliation procedures and practices, reviewing Drainage revenues accounting procedures, and reviewing and testing account write-off procedures. Overall, we found controls were adequate for accounting for Drainage revenues, but some improvements are needed for accounting for Drainage receivables. We found that the Drainage receivable was not reconciled on a regular monthly basis. We also found that delinquent accounts are not always written off in a timely manner. Details on these issues are provided below.

³ Enterprise funds are used for government ventures that are like a business in that services are sold and the price or rates paid by the service users (i.e., citizens) cover the expenses of providing the services, except there is no "profit" factor involved. This contrasts with a general fund operation in which a rate or cost to the user generally is not tied directly to the cost of providing the service. Using parks as an example, there may be no direct cost whatsoever to the citizen who visits or uses a park.

Conclusion 9: Reconciliations of the Drainage receivable were not done on a timely basis.
High risk

Background

Drainage receivables are Drainage fees billed but not yet paid. About \$37 million flowed through the Drainage receivable account in 2006 for current-year Drainage fees billed. As of July 2006, there was \$17.9 million in Drainage accounts receivable for fees billed for the current year, and \$854,000 for fees billed for prior years (i.e., for delinquent accounts).

Issue, Impact, and Recommendation

Good accounting practices indicate that accounts with a balance that would be considered “material” should be reconciled monthly, so that any potential issues can be identified, researched, and resolved in a timely manner. During the time of our audit fieldwork, we noted that SPU Accounting was three to six months behind in performing the Drainage receivable reconciliation. By the time we completed our fieldwork in August 2006, the receivable reconciliation had been brought up to date. Nevertheless, we recommend that SPU Accounting consistently perform account reconciliations for the Drainage receivable every month.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

The Drainage and Wastewater Fund Accountant now reconciles the drainage receivable monthly.

Conclusion 10: Delinquent Drainage fee receivables are not always written off timely.
Medium risk

Issue, Impact, and Recommendation

Drainage fee receivables should be accurately represented in the City’s general ledger (GL) and these receivables should normally be written off when it becomes unlikely they will be collected. King County begins foreclosure procedures on properties with property taxes that have been delinquent for three years, and the foreclosure process takes about six months, so it seems reasonable to assume there should be no Drainage fee receivable accounts older than three and a half years. Currently, Drainage fee receivables are not always written off in a timely manner and there are delinquent Drainage accounts dating back to 1989 in DBS. These accounts most likely represent parcels owned by government entities, since these properties cannot be foreclosed on. (See a more detailed description of this issue at Conclusion 4.)

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

We are currently evaluating delinquent receivables with a focus on receivables older than four years. We have asked the City’s Law Department to determine whether the older delinquent balances can be collected. Once that determination has been made, we will develop and implement a write-off policy and procedure for drainage receivables.

VII. KING COUNTY SERVICES PERFORMANCE AND BILLING FOR SERVICES

SPU outsources several Drainage administration functions to King County, including billing, payment processing, collection, and IT support functions. In the 1980s, when the City Council voted to begin charging a Drainage fee, King County was already charging for drainage (surface water management), and this may explain why the City decided to have King County perform some of the Drainage administration functions and include the City Drainage fee on the County property tax statement. SPU pays King County 1% of all Drainage fees collected for Drainage billing, payment processing, and collection services, and about \$55,000 annually for IT support services. There is a Memorandum of Agreement (MOA) between the City and the County for the performance of the Drainage administration functions and there is a service level agreement covering the IT support services.

We reviewed King County's performance of contracted services and its billing for these functions to determine whether internal controls were adequate. Specifically, we evaluated whether the controls ensured that King County performed Drainage administration functions for SPU adequately and in accordance with contractual terms, and invoiced charges for these services were accurate and properly reviewed. This included reviewing the MOA and the IT service level agreement, verifying charges for services against contracted terms, reviewing "invoice" payment controls, and considering the pros and the cons of the current outsourcing arrangement. Overall, we found that King County was performing Drainage functions for SPU in accordance with agreed upon terms, and charges for services were accurate and properly reviewed and approved. However, the MOA has not been updated since 1989 and some of the agreement's terms do not match current practices. SPU may wish to re-evaluate whether it is more beneficial to continue outsourcing drainage billing and collection functions or if it should bring them in-house. Details on these issues are provided below.

Conclusion 11: The Memorandum Of Agreement (MOA) with King County for Drainage billing and collection services has not been updated since 1989 and some terms of the agreement do not match current practices. *Medium risk*

Issue, Impact, and Recommendation

Any formal agreement for contracted services should be current and periodically reviewed, and the terms of the agreement should match actual practices. The City's MOA with King County for Drainage fee administration services has not been updated since 1989, when it was originally established, and some of the terms of the MOA do not match current practices. The MOA states that King County will remit Drainage fee payments to the City monthly, and the current practice is for King County to remit payments daily. The MOA also states that King County will remit interest collected on delinquent accounts monthly, and the current practice is for King County to remit estimated interest annually. A new and up-to-date MOA should be established between King County and SPU for Drainage administration services.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

As we are evaluating whether to bring drainage billing in-house or continue our arrangement with King County for drainage billing, we believe it is prudent to complete this evaluation and receive final feedback from City Council prior to embarking on any comprehensive negotiations with the County. However, we will evaluate the MOA to determine those areas of concerns that

could be addressed within the scope of the current agreement, and we will begin discussions with the County regarding the feasibility of such actions.

Conclusion 12: SPU may wish to re-evaluate whether it is beneficial to continue outsourcing Drainage fee billing and collection functions or to bring them in-house. High risk

Background

SPU outsources several Drainage administration functions to King County, including billing, payment processing, collection, and IT support functions, and this has been the arrangement since the City began charging for Drainage in the 1980s. SPU pays King County 1% of all Drainage fees collected for the County's Drainage billing, payment processing, and collections services, and SPU pays a separate fee of about \$55,000 annually for IT support services. In 2005, SPU paid \$314,000 to King County for Drainage administration services, excluding IT support.

Issue, Impact, and Recommendation

The benefits provided by outsourcing Drainage administration functions to King County should equal or outweigh the costs of these services. We were not able to determine what the cost would be for SPU to perform the services that are currently performed by King County, but we did note several issues that indicate SPU should re-evaluate the current arrangement:

- **Lack of Delinquent Account Follow-Up for Three Years** As discussed in Conclusion 4, there is no tracking or follow-up on delinquent accounts until they are three years past due when foreclosure proceedings are initiated, and the total value of delinquent Drainage accounts currently amounts to about \$1.5 million. While these practices may be the appropriate way to manage delinquent property tax accounts, it is not the way the City handles other utility services receivables, and it reduces cash flow. SPU handles delinquent Water, Waste Water, and Residential Solid Waste accounts by shutting off water service, after proper warning notices have been provided to the customer. These three utility services are included on the same bill, known as the combined utility bill, and payments made on delinquent accounts are applied first to Solid Waste charges, then to Waste Water charges, and last to Water charges. The consequence of water shut-off provides a substantial incentive for customers to pay the combined utility bill in a timely manner, but there is no such incentive with Drainage fees.
- **Utility Fee Billed on Property Tax Statement** Drainage fees are the only utility service charges the City bills for on the King County property tax statement. All others are billed on a City statement or invoice for utility fees. Most government entities with properties in the City are required to pay SPU's Drainage fee, even though these properties are not subject to property tax. In addition, there are non-government-owned entities that are not subject to property tax (e.g., cemeteries) but are required to pay Drainage fees. Billing Drainage fees on a utility fees statement or invoice might help to strengthen the City's position that Drainage fees are a charge for utility services, not a tax.

- Information Systems and Drainage Functions – Clarity of “Ownership” Currently, King County “owns” and operates the DBS system, but SPU owns and maintains the DBS data. This causes some issues in terms of requests for reporting and system enhancements and changes. All system and reporting requests are handled by King County IT, although the system needs are SPU’s. We observed several issues that would require new reports developed or systems changes to resolve them – see Conclusions 1, 2, 4, 5, 6, 7, 8, and 10. We also observed that some Drainage functions are not handled at all, including research and follow-up on delinquent accounts discussed at Conclusion 4, and writing off accounts discussed at Conclusion 10. This appears to be due to a lack of clear “ownership” of some of the Drainage functions, possibly because many of the Drainage administration functions are outsourced to King County.

We recommend that SPU management re-evaluate the current outsourced arrangement for Drainage administration functions, consider its pros and cons, and then determine whether it would be better to have SPU perform some or all of these functions.

SPU RESPONSE - ACTIONS PLANNED OR TAKEN

We agree and are evaluating whether to continue outsourcing drainage billing and collection functions or to bring them in-house. The drainage database portion of the database management/billing project (see Conclusion 1) will bring the database of parcel characteristics used to calculate the drainage fee in-house to SPU. This will provide clarity of ownership of the information system and the data used for drainage billing. SPU will be able to develop standard reports and ad hoc queries as needed to maintain the data. The project team will also be evaluating the feasibility of moving billing and receipt of payments in-house (see Conclusion 4), facilitating follow-up on delinquent accounts and transparent billing of the drainage fee on the combined utility bill.

APPENDIX 1
Drainage Fee Revenues Data

| Year | Drainage Fee Revenues |
|-------------|------------------------------|
| 1996 | \$10,308,813 |
| 1997 | \$10,913,446 |
| 1998 | \$11,452,354 |
| 1999 | \$16,607,349 |
| 2000 | \$16,085,024 |
| 2001 | \$22,480,601 |
| 2002 | \$22,313,062 |
| 2003 | \$23,652,535 |
| 2004 | \$28,079,333 |
| 2005 | \$31,360,996 |

Drainage Fee Revenues data supplied by the SPU Financial Planning & Rates unit.

APPENDIX 2

SPU Billing & Accounts Receivable – Drainage Fees – Risk Matrix

Risk Level Definitions: Red = High risk – Internal controls should be strengthened as soon as possible; Yellow = Medium risk – It would be ideal to strengthen internal controls; Green = Low risk – Internal controls appear to be adequate.

| Scope Area & Issues | Risk Level |
|---|-------------------|
| | |
| Billing | Yellow |
| • Variance Reporting | Red |
| • Frequency of Fee Updates to Customer Accounts | Yellow |
| • Handling of Bills “Returned to Sender” | Yellow |
| | |
| Payment Processing & Remittance of Payments | Green |
| | |
| Accounts Receivable & Delinquent Account Management | Red |
| • Tracking and Follow-Up on Delinquent Accounts | Red |
| • Remission of Interest Paid on Delinquent Accounts | Red |
| | |
| Customer Service, Account Adjustments, & Customer Disputes | Yellow |
| • Employee Adjustments to Drainage Fees and/or Receivables | Yellow |
| | |
| Information Technology | Yellow |
| • Property Characteristics Data in DBS | Red |
| • DBS System Access Rights | Yellow |
| | |
| Fund Accounting – Drainage Fee Revenues & Receivables | Yellow |
| • Reconciliation of Drainage Fee Receivables | Red |
| • Write-Offs of Receivables | Yellow |
| | |
| King County Services Performance & Billing for Services | Yellow |
| • Memorandum of Agreement with King County | Yellow |
| • Outsourcing of Drainage Fee Administration Functions | Red |

APPENDIX 3

SPU Response to Audit Report

– Overall Comments and Context for SPU Action Plans –

SPU is currently drafting requirements for an in-house drainage customer data management and billing system. Data management will be done in-house at SPU. Two options will be explored for the billing system: continue with King County or bring the billing in-house. Requirements definition is expected to be completed in the third quarter of 2007. The City Council has already approved funds for the development of the data management component of the system. They are expected to make a final determination on whether to move billing in-house once the requirements definition is complete. This project is referred to as the drainage data management/billing project.

Most of the recommendations noted in the audit report can (and will) be adequately addressed within an in-house data management/billing solution. Specific actions to be taken under a new system are noted in individual responses to each conclusion, where applicable. In the absence of an in-house solution, the ability to address many of the audit recommendations would require revising the existing King County IT system and/or the administrative provisions of the current MOU. Considering that the data management/billing requirements are already a work in progress, it would seem prudent to complete this requirements definition and receive final feedback from City Council prior to embarking on any comprehensive negotiations with the County. Some of the audit recommendations could likely be supported in the near term by King County without significant revisions to the existing system or agreement (i.e., certain new report definitions). SPU's responses note where the County could potentially address audit concerns within the scope of the current MOA and will begin discussions with the County regarding the feasibility of such actions.

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* * * * *

Report: SPU Billing & Accounts Receivable – Drainage Fees

Release Date: February 8, 2007

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|------------------------|------------|------------|----------|
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| Details | | | |
| Length of Report | | | |
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